

31 January 2019



Events Round-Up

AU: CPI (y/y%), Q4: 1.8 vs. 1.7 exp.

AU: CPI – trimmed mean (y/y%), Q4: 1.8 vs. 1.8 exp.

AU: CPI – weighted median (y/y%), Q4: 1.7 vs. 1.7 exp.

EC: Economic confidence, Jan: 106.2 vs. 106.8 exp.

GE: CPI (y/y%), Jan: 1.7 vs. 1.7 exp.

US: ADP employment change, Jan: 213 vs. 181 exp.

Good Morning

US equities have had a good night after Apple's earnings results weren't as bad as some feared and Boeing's earnings beat expectations by a significant margin. Focus now turns to the FOMC meeting at 8am, followed shortly after by Chair Powell's press conference. The AUD has outperformed after a marginally better than expected CPI release, and this has seen NZD/AUD drift back to 0.95. The NZD is again broadly unchanged against the USD.

The focus in the session ahead is the FOMC meeting, in around 45 minutes time. The Fed is universally expected to keep rates on hold, at 2.5%, with interest centred on how it conveys its outlook for rates. At its last meeting in December, the Fed said it "*judges that some further gradual increases*" in rates would be appropriate, but following the market meltdown around the turn of the year, Fed officials have since stressed "patience" with rates. The market expects some softening to the Fed's tightening bias, or the removal of forward guidance altogether. 2019 will be the first year when the Fed will hold a press conference after every meeting, and Powell will likely be pressed on the Fed's plans for its balance sheet reduction (so-called "quantitative tightening"), the rationale for the likely pause in rate hikes, and what the circumstances might be for a resumption in rate hikes. US Treasury yields have unsurprisingly been relatively stable overnight as the market awaits the Fed. There was little reaction to the better than expected ADP employment survey. The 10 year Treasury yield is 1bp higher than this time yesterday, at 2.73%.

Equity markets have performed well overnight, buoyed by better earnings results, with the S&P500 up around 1% and the NASDAQ up 1.3%. Apple's earnings were close to analysts' expectations but investors were clearly braced for worse, as its share price increased 5% overnight. Apple had previously lowered its earnings guidance earlier in the year due to a tougher macroeconomic environment

in China. Meanwhile, Boeing rose almost 7% after reporting revenue and earnings that comfortably beat expectations. Facebook, Microsoft and Qualcomm report earnings after the bell today. The S&P500 is up almost 5% this year, but remains 9% below its recent peak in early October.

The other focus over the rest of the week is the outcome from trade talks between the US and China. Bloomberg reported that the two sides remained far apart on some of the deep-seated issues like US demands that China revamp its industrial policies and take greater steps to protect intellectual property. Ahead of the talks, China's National People's Congress fast-tracked a law that would formally ban 'forced' technology transfers from foreign firms operating in China, although it's uncertain whether that will be sufficient to assuage US concerns. The China CSI300 index was 0.4% lower yesterday, with more than 20 companies reporting lower than expected earnings results, a further sign of the slowdown in growth in the country. But the CNY strengthened further against the USD overnight (+0.3%) and the currency is now at its highest level since July last year.

In currencies, the USD indices are little changed overnight ahead of the FOMC meeting. The Bloomberg USD index remains close to three month lows. The Canadian dollar (+0.5%) and Norwegian krona (+0.3%) have outperformed on the back of another rise in oil prices overnight. Brent crude oil was 2% higher to \$62 per barrel after the US imposed sanctions on Venezuela's state oil firm PDVSA. The Swiss franc (-0.4%) and Japanese yen (-0.1%) have underperformed amidst the more positive tone to risk assets.

The GBP has consolidated around 1.3060 overnight after falling sharply yesterday after UK MPs voted down Labour MP Yvette Cooper's amendment that would have delayed Article 50 by nine months. Instead, MPs voted that May should seek to change the controversial backstop plan for the Irish border with the EU. The EU seems in little mood for compromise however, with EC President Juncker saying overnight that the backstop was "*part and parcel*" of the deal and would not be renegotiated. He added that the risk of a disorderly no-deal scenario had increased. There is still time for UK MPs to vote to extend the leave date of March 29th if May is unsuccessful in securing concessions from the EU over the next few weeks, as seems likely. We retain the view that a no-deal scenario is unlikely.

The best performing currency over the past 24 hours has been the AUD, which is 0.6% higher to 0.72. Australian headline CPI was marginally better than expected (1.8% vs. 1.7% expected), but short covering by market participants saw the currency spike higher after its release. RBA rate cut expectations were also pared back, and Australian rates rose. The market prices around a 50% chance of a cut by November, compared to 65% pre-data. The RBA's core measures of inflation met expectations. The average of the weighted median and trimmed mean measures of core CPI was 1.75%, still below the bottom of the RBA's 2-3% target range and suggesting little sign of building inflationary pressures. The 8% rise in iron ore futures over this week, on news that Vale plans to reduce output following the dam disaster in Brazil, has also helped support the AUD.

The appreciation in the AUD has seen the NZD/AUD slip back from 0.9550 to 0.95. The NZD is little changed against the USD (once again) from this time yesterday, at 0.6835. The NZD has traded an exceptionally tight 0.6820

– 0.6870 range this week. NZ rates were slightly higher across the curve yesterday, helped by the moves in Australia and a small rise in the 90 day bank bill rate.

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Coming Up

	Period	Cons.	Prev.	NZT
US FOMC Rate Decision (Upper Bound)		2.5	2.5	08:00
CH Non-manufacturing PMI	Jan	53.8	53.8	14:00
CH Manufacturing PMI	Jan	49.3	49.4	14:00
EC Unemployment Rate	Dec	7.9	7.9	23:00
EC GDP (q/q%)	4Q A	0.2	0.2	23:00
EC GDP (y/y%)	4Q A	1.2	1.6	23:00
US Employment Cost Index	4Q	0.8	0.8	02:30
CA GDP (m/m%)	Nov	-0.1	0.3	02:30
US Core PCE deflator (y/y%)	Dec	1.9	1.90000	02:30
US Chicago Purchasing Manager	Jan	61.5	65.4	03:45

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**			
Indicative overnight ranges (*)				Other FX				Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	% Day	% Year		Last	Net Day
NZD	0.6836	+0.0	0.6823	0.6856	CHF	0.9990	+0.4	S&P 500	2,664	+0.9	-5.6		Oil (Brent)	62.43	+1.8
AUD	0.7197	+0.6	0.7181	0.7204	SEK	9.098	+0.3	Dow	24,912	+1.3	-4.5		Oil (WTI)	54.77	+2.7
EUR	1.1421	-0.1	1.1406	1.1450	NOK	8.476	-0.3	Nasdaq	7,121	+1.3	-3.8		Gold	1309.9	+0.1
GBP	1.3060	-0.0	1.3055	1.3122	HKD	7.845	-0.0	Stoxx 50	3,162	+0.3	-12.3		HRC steel	692.0	+0.6
JPY	109.54	+0.1	109.24	109.74	CNY	6.717	-0.3	FTSE	6,942	+1.6	-8.5		CRB	180.6	+0.8
CAD	1.3199	-0.5			SGD	1.351	-0.1	DAX	11,182	-0.3	-15.3		Wheat Chic.	518.0	-0.3
NZD/AUD	0.9498	-0.6			IDR	14,131	+0.3	CAC 40	4,975	+0.5	-9.1		Sugar	12.50	-1.4
NZD/EUR	0.5985	+0.1			THB	31.35	-0.3	Nikkei	20,557	-0.5	-11.0		Cotton	74.09	-0.1
NZD/GBP	0.5234	+0.1			KRW	1,116	+0.0	Shanghai	2,576	-0.7	-26.0		Coffee	102.2	-0.3
NZD/JPY	74.88	+0.1			TWD	30.77	-0.2	ASX 200	5,887	+0.2	-2.5		WM powder	2880.0	-0.3
NZD/CAD	0.9023	-0.5			PHP	52.34	-0.3	NZX 50	8,926	-0.9	5.7		Australian Futures		
NZ TWI	73.95	-0.1											3 year bond	98.24	-0.05
													10 year bond	97.75	-0.04
Interest Rates								NZ Government Bonds				NZ Swap Yields			
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	2.50	2.74	2.72	2.76	USD	2.73	0.02	NZGB 6 05/15/21	1.72	0.01	1 year	1.93	0.01		
AUD	1.50	2.07	1.92	2.51	AUD	2.24	0.01	NZGB 5 1/2 04/15/23	1.79	0.00	2 year	1.93	0.01		
NZD	1.75	1.92	1.92	2.56	NZD	2.12	-0.01	NZGB 2 3/4 04/15/25	1.96	-0.00	5 year	2.13	0.00		
EUR	0.00	0.06	-0.16	0.70	GER	0.19	-0.01	NZGB 4 1/2 04/15/27	2.12	-0.01	7 year	2.33	0.00		
GBP	0.75	0.93	1.12	1.45	GBP	1.26	-0.01	NZGB 3 04/20/29	2.31	-0.00	10 year	2.57	0.00		
JPY	-0.06	-0.07	-0.01	0.16	JPY	0.01	-0.00	NZGB 3 1/2 04/14/33	2.49	-0.00	15 year	2.83	0.00		
CAD	1.75	1.17	2.26	2.47	CAD	1.97	0.02	NZGB 2 3/4 04/15/37	2.67	-0.00					

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:55

Source: Bloomberg

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